



The United States Extractive Industries
Transparency Initiative

Improving the Efficiency of the Reconciliation Process

November 16, 2016

EITI Standard Requirements

The EITI Standard requires comprehensive reconciliation

EITI Requirement 4 requires a comprehensive reconciliation

The EITI standard requires a comprehensive reconciliation of company payments and government revenues from the extractives industries. This includes requirement 4.1, which covers the comprehensive disclosure and reconciliation of taxes and revenue.

Meeting the requirements is the key criteria to evaluate potential methods that aim to reduce the reconciliation commitment for the government, companies, and the IA.

Key Questions for Reconciliation Going Forward

USEITI needs to meet EITI requirements *and* make the process as efficient as possible for the Government, companies, and the IA

There are 3 options the IA has identified that could make Reporting & Reconciliation more efficient without compromising compliance with Requirement 4 or reducing the transparency benefit of the exercise:

- 1 Sampling – Based on learnings from 2016, could a sampling approach be feasible for 2017?**
- 2 Review of the DOI Audit Procedures - Is it feasible for the existing DOI Audit Procedure (either as is or with modifications) to satisfy EITI Requirement 4 and replace a stand-alone Reconciliation process in 2017 or 2018?**
- 3 MSG Decisions on 2017 Reconciliation Scope – Are there changes to the Scope that the MSG could adopt to improve efficiency? [Annual MSG consideration of the Scope is required by Requirement 4.1(a)]**

1 Sampling

How could sampling be applied to reconciliation?

- The use and application of a sampling process was discussed at the March 2016 MSG meeting at the recommendation of the Implementation Subcommittee
- The AICPA states in their Government Audit Quality Center's guidance for federal engagements that, *"...a rule of thumb ... is to test a sample size of approximately 10 percent of the population, but the size is subject to professional judgment, which would include specific engagement risk assessment considerations."*
- Based on standards provided for by the AICPA, our sampling guidelines for the 2016 report would recommend a sample of approximately 27 companies. In order to highlight a representative set, we would use size strata

Strata	Number of Companies	Example Sample Size
Top (60%)	10	10 out of 10
Middle (25%)	13	9 out of 13
Bottom (15%)	18	8 out of 18

1 Sampling

What would sampling results have looked like if implemented for the 2016 report?

- Using collected and finalized data for the 41 in-scope companies, the IA created 3 mock samples for the 2016 report
- The results for the three randomly selected mock samples of 2016 in-scope companies are:

Category	2016 Actual Results	Mock Sample 1	Mock Sample 2	Mock Sample 3
Companies that reported & reconciled revenues	25/41	19/27	19/27	18/27
Companies that reported taxes	12/38	10/25	8/25	10/26
Companies that reconciled taxes	7/38	7/25	4/25	6/26
Total Government non-tax revenues for in-scope companies	\$6,109,421,679 (79% reconciled)	\$5,099,859,389 (83% reconciled)	\$5,239,391,708 (83% reconciled)	\$5,267,946,392 (83% reconciled)

From the results of the mock samples, we can see two obstacles to implementing sampling: 1) given non-mandatory nature, it's hard to construct a representative sample; and 2) the number of companies reconciled may go down which optically may not look like progress under the standard.

2 Review of DOI Audit Procedures

DOI undergoes an audit by an independent audit firm. Would that audit meet the EITI requirements?

As part of the **annual DOI audit process**, an independent audit firm provides an examination of the DOI financial report. The purpose of this audit is to form a view on whether the information presented in the financial report, as a whole, reflects the financial position of the organization at a given date

At the October 12, 2016 meeting, the Co-Chairs requested that **the IA review the DOI audit procedures to see if they would satisfy EITI requirements either in their current form or with some modifications**

The **IA will work with the Implementation Subcommittee to look into this area**. The key questions to look into are:

- Given the focus of the DOI Audit, ***can the audit procedure satisfy Requirement 4 either in its current form or with reasonable modifications?***
- If feasible, ***is this approach potentially more cost- and time-effective than a stand-alone USEITI Reconciliation process?***

The proposed outcome will be a short paper for consideration of the Implementation subcommittee and, if feasible, would likely effect the 2018 process.

3 MSG Decisions on 2017 Reconciliation Scope

The MSG should consider potential changes to the scope and margin of variance as part of its annual agreement on the Reconciliation Process

During the reconciliation process, both **Industry and Government identified that a few revenue streams required large amounts of work due to the margin of variance threshold**




Specific instances were for **low dollar values compared to the overall value reported** by a specific company:

- Ex. OSMRE Civil Penalties - \$3,420 reported by company, \$5,630 reported by the Government, resulting in a 64.62% variance percentage
- Variance Percentage Threshold: 3%, Variance Floor Threshold: \$0
- The \$2,210 was identified as a timing issue between 2015 payment by the company and 2016 recording of the payment by the Government
- Total revenue reported by the company was \$551,321,195, and this was the only variance identified for the company

Both the scope and margin of variance are determined by the MSG. The MSG should engage in a discussion on the scope of reconciliation and margin of variance thresholds; both of which are levers to make the process more efficient in 2017.

Reconciliation Path Forward

There are opportunities to realize efficiencies in the reporting and reconciliation process for USEITI

Option	IA Recommendation
1. Sampling	 The UA does not believe that Sampling is feasible for 2017. The main obstacle is the difficulty in constructing a sample because of the non-mandatory nature of the company reporting. Sampling could become feasible in future years in the context of mainstreamed mandatory reporting (e.g. under Dodd-Frank 1504).
2. Review of DOI Audit Procedures	 Based on co-chair request, the IA proposes to validate the feasibility of meeting Requirement 4 as part of the DOI Audit. The feasibility of this approach is not clear. If it is feasible, it would likely be applicable in 2018.
3. MSG Confirmation of 2017 Scope	 According to Requirement 4.1(a), the MSG should review the Reconciliation Scope for 2017. The IA believes there are potentially some changes to Scope (e.g. margin of variance for certain revenue streams) that could streamline the process without compromising comprehensiveness of reporting. The IA proposes to prepare some options for consideration in the Implementation Subcommittee.

For the 2017 USEITI Report, the MSG should consider:

- 1) A review of the DOI audit procedures and their application to EITI standards
- 2) The application of the margin of variance for reconciliation